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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

Bell Atlantic Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 690	)	
	)	CC Docket No. 94-157
NYNEX Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 328	)	

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DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY

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August 14, 1995

No. of Copies rec'd 0+1
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SUMMARY*

The attached Direct Case provides the various items of information requested by the Commission in its Designation Order. As shown herein, the data provided by SWBT was reasonably used to calculate the incremental amounts for SFAS-106 that SWBT has included in its rates.

Nevertheless, SWBT fears from the context of the questions listed by the Commission that additional new criteria to determine the proper exogenous amount may now be raised. The Commission must be careful not to impose criteria that were not listed in the Rules when SWBT originally made its request for exogenous treatment of SFAS-106 amounts.

The Court's remand of the January 22, 1993 OPEB Order expressly limits the criteria that are subject to re-examination by the Commission. This limitation should be used by the Commission to restrict the proceedings in this matter to the remaining issues.

* All abbreviations used herein are referenced within the text.

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DIRECT CASE OF
SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), pursuant to the Order Designating Issues for Investigation[1] released June 30, 1995 by the Common Carrier Bureau (Bureau) hereby files its Direct Case in this matter. This Direct Case confirms that which has been shown by SWBT's prior pleadings in previous proceedings -- the incremental amounts associated with SFAS-106 that SWBT has included in its rates have been reasonable.

I. ISSUE A

The Designation Order asks:

> Have AT&T and the individual LECs correctly, reasonably and justifiably calculated the gross amount of SFAS-106 costs that may be subject to exogenous treatment under price cap regulation?[2]

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[1] 1993 Annual Access Tariff filings, CC Docket No. 93-193, Phase I, 1994 Annual Access Tariff filings, CC Docket No. 94-65, AT&T Communications Tariff F.C.C. Nos. 1 and 2, Transmittal Nos. 5460, 5461, 5462 and 5464, CC Docket No. 93-193, Phase II, Bell Atlantic Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 690, CC Docket No. 94-157, NYNEX Telephone Companies Tariff F.C.C. No. 1, Transmittal No. 328, Order Designating Issues for Investigation (DA 95-1485) (Com. Car. Bur., released June 30, 1995) (Designation Order).

[2] Designation Order at para. 17.

SWBT has indeed correctly, reasonably, and justifiably calculated these amounts. Following are SWBT's responses to the items specifically requested by the Designation Order, which demonstrate this point.

A. Paragraph 17, Item 1

The Date The Company Implemented SFAS-106

SWBT implemented SFAS-106 accounting on January 1, 1993 for both Commission regulatory accounting purposes and external financial reporting purposes.

B. Paragraph 17, Item 2

The Cost Basis Of The Pay-As-You-Go Amounts That Supported The Rates In Effect On The Initial Date That The Carrier Became Subject To Price Cap Regulation

For the 1990/91 tariff period, SWBT's pay-as-you-go amounts were included in Account 6728, Other General and Administrative Expense. These amounts were included in SWBT's forecasted revenue requirement for the 1990/91 annual tariff period. The underlying tariff review plan (TRP) data utilized by SWBT and submitted to the Commission did not separately identify the pay-as-you-go amounts included in Account 6728. SWBT has determined that the total pay-as-you-go expense amount for the 1990/91 tariff period was approximately $90 million (on a total SWBT basis).[3]

Attachment 1 shows the amount of the pay-as-you-go expense included in the interstate revenue requirements. Allocation factors for removal of nonregulated and other costs,

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[3] See Attachment 1, page 1 of 2.

interstate assignment, and exclusion of billing and collection amounts were developed from the TRP data, Submission 3. Attachment 1, Page 2 shows the development of these factors. Additionally, Attachment 1, Page 2 shows the development of the factor to account for the "expense less depreciation" disallowance made by the Commission to SWBT's 1990 annual filing.[4] Pertinent pages from the 1990 Annual Tariff Filing, Submission 3, TRP are included as Attachment 2.[5]

C. Paragraph 17, Item 3

The Effect Of The Price Cap Formula On That Amount Up To The Date Of Conversion To SFAS-106

During the first two years of the LEC price cap plan, SWBT's average price cap declined by a cumulative amount of approximately 7.4%.[6] As a result, the effect of the price cap formula on SWBT's pay-as-you-go amounts was to reduce cost recovery by 7.4%. Thus, the price cap formula actually decreased SWBT's recovery of pay-as-you-go OPEB amounts.

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[4] SWBT Transmittal No. 2003, filed June 28, 1990.

[5] SWBT 1990 Annual Access Tariff Filing, Transmittal No. 1993, filed May 24, 1990.

[6] This price cap index change (a 7.4% decline) is essentially equal to the weighted average of the percentage changes in: (1) the switched traffic sensitive price cap index (PCI); (2) the special access PCI; (3) the interexchange PCI; (4) the maximum average Carrier Common Line (CCL) rate; and (5) the average Subscriber Line Charge (SLC), when the weights used are the base period demand times end-of-period price concept used in Part 61 of the Commission's price cap rules. This method is equivalent to calculating the percentage change in revenue in the SUM-1 Form of the Tariff Review Plan. The calculation above was performed using the percentage change in revenue and is displayed in Attachment 3.

D. Paragraph 17, Item 4

The Carrier's Actual Cash Expenditures Related To SFAS-106 For Each Year Since The Implementation Of Price Caps, But Prior To Implementation Of SFAS-106 Accounting Methods; And

SWBT's actual cash expenditures related to other postretirement employee benefits (OPEBs) for 1991 and 1992 are listed below. As mentioned above, SWBT implemented SFAS-106 accounting on January 1, 1993.

1991	$95.1 M
1992	$102.6 M

E. Paragraph 17, Item 5

The Treatment Of These Costs In Reports To The Securities And Exchange Commission (SEC) And To Shareholders, Including Specific Citations To Or Excerpted Materials From, Such Reports To Indicate The Amount Of Liability Each Party Has Projected For OPEBs

SWBT has fully complied with all disclosure requirements of the Securities and Exchange Commission (SEC) and Generally Accepted Accounting Principles (GAAP) regarding SFAS-106. In support, SWBT has attached relevant pages from its Annual Reports and Forms 10-Q and 10-K to the SEC as Attachment 4.[7]

Prior to January 1, 1993, SWBT recognized nonpension postretirement benefits as an expense as claims were incurred, except for a very small amount of life insurance benefit cost which

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[7] Also see page 18 and Exhibit 4 of SWBT's 1992 Direct Case, filed July 31, 1992, 1992 in CC Docket No. 92-101 (1992 Direct Case). Copies of SWBT's Annual Reports, Form 10-Ks and 10-Qs for 1990 and 1991 were previously provided in SWBT's 1992 Direct Case, Exhibit 4.

was actuarially determined and accrued/funded over the employees' active working lives.

SWBT discloses information about its accounting for postretirement benefits annually in a footnote to its Form 10-K which is filed with the Securities and Exchange Commission. The footnote also includes information relative to the level of these expenses.

SWBT first projected an estimate of the liability for implementing SFAS-106 in its 1991 Form 10-K. At that time, SWBT estimated its accumulated obligation for postretirement benefits to be between $2.6 and $3.0 billion.

For external financial reporting purposes, SWBT immediately recognized the Transition Benefit Obligation (TBO) in adopting SFAS-106 effective January 1, 1993. SWBT's 1993 10-K report states:

> In implementing Statement No. 106, the Telephone Company immediately recognized an accumulated obligation for postretirement benefits (transition obligation) in the amount of $2,756.9 and a related deferred income tax benefit of $976.2. The resulting 1993 charge to net income of $1,780.7 is included in the cumulative effect of changes in accounting principles in the Statement of Income.[8]

F. <u>Paragraph 18, Item 1</u>

<u>Describe Each Type of Benefit Being Provided That Is Covered By the SFAS-106 Accounting Rules</u>

SWBT provides four types of postretirement benefits which are covered by SFAS-106 accounting. These include, health, dental,

[8] SWBT 1993 Report 10-K, p. 30. (The quoted dollar amounts above are in millions.)

basic life insurance, and telephone concessions. Each of these are retiree benefits for which SFAS-106 accrual accounting has been mandated by the Financial Accounting Standards Board (FASB) and the Commission. Medical benefits are provided to eligible retirees for hospital, surgical, diagnostic, physician and certain other medical charges covered by SWBT, net of coordination of benefits and the partial reimbursement to SWBT by AT&T for the coverage provided by SWBT to pre-Divestiture AT&T retirees. A detailed description of this medical plan is contained in Attachment 5, Section 1, pages 17-23.

Dental benefits are provided to eligible retirees for oral exams, diagnostic, basic restorative, certain corrective and other dental charges covered by SWBT, net of coordination of benefits and partial reimbursement for pre-Divestiture AT&T retirees. A detailed description of this dental plan is contained in Attachment 5, Section 2, pages 10-15.

Life insurance benefits are provided to eligible retirees for a basic group life insurance program. A detailed description of this life insurance plan is contained in Attachment 5, Section 3, pages 11-13.

Telephone concession benefits are provided to eligible retirees who live outside the SWBT service area for certain basic local telephone and a fixed amount of intraLATA toll charges, net of partial reimbursement for pre-Divestiture AT&T retirees. A detailed description of this telephone concession plan is contained in Attachment 5, Section 4, pages 10-12.

G. Paragraph 18, Item 2

Provide, On A Year-By-Year Basis What The Pay-As-You-Go Amounts Would Have Been Had The Company Not Implemented SFAS-106 Methods

The pay-as-you-go amounts that would have been incurred had the company not implemented SFAS-106 for 1993 and 1994 are listed below.

1993	$126.6 M
1994	$122.3 M

H. Paragraph 18, Item 3

Describe The Forms Of Postretirement Benefit Accrual Accounting, If Any, That Were Utilized Before the Effective Date of Price Cap Regulation

Other than very small amounts of accrual accounting for life insurance, no accrual accounting for postretirement benefits was utilized by SWBT before the January 1, 1991 effective date of price cap regulation for SWBT. Thus, prior to 1991, accounting for postretirement benefits, except for life insurance benefits, was on a "pay-as-you-go" or "cash" basis for both regulatory and financial reporting.

While the size of the life insurance accrual amounts are minimal, a description of the accrual accounting method used is contained below. For postretirement life insurance benefits, the aggregate actuarial/cost method was utilized to determine the accrual accounting costs. Costs were computed as follows:

> On the actuarial valuation date, the actuarial present value of future normal costs was determined as the excess of the actuarial present value of projected benefits over the actuarial value of plan assets. The actuarial

> present value of future normal costs was then divided by the actuarial present value of future valuation pay to determine the normal cost accrual rate.
>
> The normal cost accrual rate was multiplied by the valuation pay of active employees included in the actuarial valuation whose attained ages are less than the assumed retirement age to determine the normal cost for the valuation year. The actuarial cost method was used to translate the calculated value of the future benefits into annual costs.
>
> The actuarial valuations were performed in accordance with Sections 419 and 419A of the Internal Revenue Code, which allow deductions for cash additions to a prefunding account as long as these additions do not cause the assets in the account to exceed incurred claims plus a level-funding actuarial reserve for these benefits. In compliance with the Deficit Reduction Act of 1984, the actuarial valuations excluded liabilities for key employees and benefits in excess of $50,000 for any employee.[9]

Postretirement life insurance benefit costs were both accrued and funded on the actuarial basis described above rather than on a pay-as-you-go basis. For SWBT, these amounts were $0.6 million in 1990 and $0.1 million in 1991. The interstate portions of these relatively small amounts (i.e., approximately $0.14 million and $0.03 million, respectively) were the only postretirement nonpension benefits accounted for on an accrual basis that were included in SWBT's interstate revenue requirements before price cap regulation was adopted. Importantly, the expenses for life insurance benefits calculated under the aggregate cost method were explicitly subtracted from SWBT's SFAS-106 costs in

[9] See, SWBT's 1992 Direct Case, pp. 24-25.

computing the incremental SFAS-106 costs used in the calculation of SWBT's exogenous amount.[10]

I. Paragraph 18, Item 4

Describe The Type And Provide The Level Of SFAS-106-Type Expenses Reflected In Rates Before They Were Adjusted For Any Exogenous Treatment Related To SFAS-106

SWBT did not reflect any SFAS-106-type expenses in its interstate rates before they were adjusted for exogenous treatment of the incremental interstate costs caused by SWBT's required adoption of SFAS-106 accounting.[11] This fact was described on pages 25 through 26 of SWBT's 1992 Direct Case.

J. Paragraph 18, Item 5

Provide The Level of SFAS-106 Expenses That Was Reflected In The Rates In Effect On The Initial Date That The Carrier Became Subject To Price Cap Regulation

Price cap regulation was mandated for SWBT, effective January 1, 1991. SWBT did not adopt SFAS-106 accounting until January 1, 1993. As a result, SWBT had no SFAS-106 expenses reflected in its rates on the initial date that it became subject to price cap regulation.[12]

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[10] This was described in SWBT's 1992 Direct Case, pp. 25-26.

[11] However, approximately $0.1 million of accrual accounting for life insurance was included in the prospective 1990/91 tariff period, the last tariff period under rate of return regulation, as described above. SWBT correctly removed this amount from its exogenous amount.

[12] However, approximately $0.1 million of accrual accounting for life insurance was included in the prospective 1990/91 tariff period, the last tariff period under rate of return regulation, as described above. SWBT correctly removed this amount from its exogenous amount.

II. ISSUE B

The Designation Order asks:

> Should exogenous claims be permitted for SFAS-106 costs incurred prior to January 1, 1993, the Commission's date for mandatory compliance?[13]

Exogenous claims should be permitted for SFAS-106 costs incurred prior to January 1, 1993, the mandated date for compliance. Although SWBT did not adopt SFAS-106 until January 1, 1993, and SWBT has made no request for exogenous treatment prior to January 1, 1993, the Commission has not precluded and should not prohibit price cap LECs from receiving exogenous cost treatment of SFAS-106 prior to that date.[14]

The LEC Price Cap Reconsideration Order states:

> Our decision not to consider exogenous treatment of GAAP changes, including OPEB expenses, until the GAAP change becomes effective is one grounded in the orderly administration of our price cap system. The requirement ensures that we will not be called upon to render decisions prior to the time the FASB has made a final ruling . . . [.C]arriers that elected to wait until the GAAP change becomes effective before expending funds for OPEB are not necessarily foreclosed from recovering these costs. Instead, we will consider request for exogenous treatment at that time.[15]

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[13] Designation Order at para. 19.

[14] SWBT presented evidence on this issue in its 1992 Direct Case, pp. 14-16.

[15] Policy and Rules Concerning Rates for Dominant Carriers 6 FCC Rcd 2637 (1991) (LEC Price Cap Reconsideration Order), para. 62.

Thus, the Commission ensured that price cap LECs would have a reasonable opportunity to recover SFAS-106 costs once the FASB issued its final Statement. That Statement was released in December 1990, and explicitly encouraged early implementation.[16] The Commission did not suggest at that time that prompt or early adoption of this Commission-mandated accounting practice would carry with it any detrimental cost recovery consequences. To the contrary, Commission rulings on SFAS-106 indicated that companies adopting SFAS-106 early, or funding accrual accounting before the actual adoption of SFAS-106 accounting by the FASB, would not be any worse off or better off than companies that elected to await the mandatory Commission adoption date.

SFAS-106 was formally incorporated into the Commission's Part 32 and Part 65 Rules in December 1991 with the release of the SFAS-106 Adoption Order.[17]

III. ISSUE C

The Designation Order asks:

> Have AT&T and the individual LECs correctly and reasonably allocated and separated amounts associated with implementation of SFAS-106 in accordance with the

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[16] Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS-106), December 1990, para. 108.

[17] Southwestern Bell, GTE Service Corporation Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, 6 FCC Rcd. 7560, (1991, Com. Car. Bur.) (SFAS-106 Adoption Order).

Commission's rules and Responsible Accounting Officer (RAO) letters?[18]

SWBT correctly and reasonably allocated and separated amounts associated with the implementation of SFAS-106 in accordance with the Commission's Rules (particularly Parts 32, 36, 61, 64, 65 and 69) and RAO Letter 20. Costs are recorded according to Part 32 Rules. SFAS-106 amounts were recorded in compliance with RAO Letter 20. Nonregulated costs are removed according to Part 64 Rules, using historical relationships. SWBT utilized its Separations and Access Cost Allocation System (SACAS) to allocate and separate the incremental costs associated with the SFAS-106 accounting change to each of the appropriate categories of cost. This system performs allocations that comply with the Commission's Part 36 and 69 Rules. Intrastate and interstate costs are separated by detailed groupings of accounts according to Part 36 Rules. Costs associated with services not subject to price cap regulation are removed according to appropriate Part 69 (billing and Collections) and Part 61 (other excluded services) Rules. Costs are allocated to price cap baskets using Part 69 Rules. Ratebase amounts are calculated according to Part 32 and Part 65 Rules and RAO Letter 20. Attachment 7, Section 2, which was submitted in SWBT's 1993 Annual Access Tariff filing, contains a detailed description and justification of the method SWBT used to perform these allocations.

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[18] Designation Order at para. 20.

A. Paragraph 20, Item 1

The Amount Associated With Implementation Of SFAS-106 For The Total Company (Including Telephone Operations And Non-Telephone Operations)

The total corporation SFAS-106 amount was calculated as the sum of SFAS-106 amounts of each of the Southwestern Bell Corporation (SBC) subsidiaries. For 1993, the total SFAS-106 amount for SBC was $424.1 million.[19] Attachment 5 is a copy of the actuarial report prepared by Southwestern Bell's independent actuary, Towers Perrin. Table A in this report illustrates the amount associated with implementation of SFAS-106 for the total corporation.

B. Paragraph 20, Item 2

An Explanation Of How The Carrier Arrived At The Total Company SFAS-106 Amounts

Total corporation SFAS-106 amounts were calculated by adding together the amounts of the individual participating subsidiary corporate entities, including SWBT.

Total corporation SFAS-106 amounts were derived by utilizing the specific provisions of SFAS-106 and the methods, procedures and assumptions employed by the actuary. Detailed explanations of the methods, procedures, and assumptions used by type of benefit are contained in the actuarial report from Towers Perrin, included as Attachment 5.

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[19] This amount includes an estimated amortization of the TBO over a 16-year period, for comparison with the SWBT amount. The Commission did not provide specific SFAS-106 accounting directives for external financial reporting purposes and SBC did not elect to amortize the TBO.

C. Paragraph 20, Item 3

The Amounts Allocated To The Telephone Operating Companies, Including The Specific Part 32 Accounts Used And The Amounts Allocated To Each Of Those Accounts

SWBT distributes SFAS-106 costs among the Part 32 accounts based upon the rules contained therein. Essentially, total SWBT SFAS-106 costs are distributed across the appropriate Part 32 accounts using the distribution of the salaries and wages of SWBT's active employees. Therefore, SFAS-106 costs are charged both to operating expenses on the income statement and to the Plant in Service and Accumulated Depreciation accounts on the balance sheet. The allocation of SFAS-106 costs to specific Part 32 accounts is accomplished through the Benefit Clearing Process, as required in Part 32.5999(f)(2) of the Commission's Rules and in accordance with RAO Letter 20. The 1993 annual average percentage distribution of SFAS-106 costs to the 71 different Part 32 accounts is included as Attachment 6.

D. Paragraph 20, Item 4

The Method Of Allocating Amounts To The Telephone Operating Companies (Head Counts, Actuarial Studies, etc.)

For each SFAS-106 benefit, SWBT-specific results were explicitly determined based upon SWBT-specific participant data, plan provisions and assets.[20] Thus, no allocations of total

[20] SWBT's SFAS-106 assets are pooled with the assets of the other SBC subsidiaries for investment purposes, with the net earnings allocated proportionately based upon beginning of year market value adjusted for contributions and benefit payments during the year.

corporation SFAS-106 costs to SWBT were necessary or utilized.

All participant data is at the individual subsidiary level. The actuarial method used (projected unit credit method) and basic actuarial assumptions (discount rate, medical trend rates, mortality, retirement, and separation rates, etc.) are applied consistently to each set of subsidiary participant data.

E. Paragraph 20, Item 5

The Amounts Allocated Between Regulated And Nonregulated Activities Of The Telephone Company, With A Description And Justification Of The Methodology For The Allocations

Amounts are allocated between regulated and nonregulated activities in compliance with Part 64 of the Commission's Rules and SWBT's Cost Allocation Manual (CAM) which is filed with the Commission. SWBT allocated a portion of the incremental SFAS-106 costs to nonregulated activities. The allocation ratio was determined based on historical relationships of nonregulated costs to total subject-to-separations costs from SWBT's 1992 ARMIS Reports No. 43-01 and No. 43-03. These calculations are shown in the workpapers filed in support of SWBT's 1993 Annual Access Tariff filing and are reproduced here as Attachment 7, Section 2, Workpapers 3 and 4.

F. Paragraph 20, Item 6

The Allocation Of Costs To Baskets, By Year

SFAS-106 exogenous costs were allocated to the four price cap baskets and to Billing & Collection using Part 69 Rules. A portion of the incremental SFAS-106 effect was then allocated to those interstate services excluded from price cap regulation based on the relative proportion of excluded service revenues by price cap basket. For these allocations, SWBT utilized its Separations and Access Cost Allocation System as described above. This system performs allocation in accordance with Parts 36 and 69 of the Commission's Rules. This allocation method is the same method that SWBT has consistently used to allocate all of the exogenous adjustments to baskets and to price cap excluded services since SWBT became subject to price cap regulation.

The following table illustrates the results of the allocations of costs to price cap baskets, excluded services and nontariffed billing and collection services:

Basket/Category	**Percent of Total Interstate Services**	**Allocation Among Price Cap Baskets**
Common Line	42.4%	46.21%
Traffic Sensitive	33.5%	36.56%
Special Access	11.1%	12.05%
Interexchange	4.8%	5.18%
Total Price Caps	---	100.0%
Excluded Services	0.4%	---
Billing and Collection	7.9%	---
Total Interstate	100.0%	---

The allocations were explained on pages 17 and 18 of SWBT's <u>1992 Direct Case</u> and again in Section 2, pages 16-18 of SWBT's 1993 Annual Access Tariff Filing.

IV. ISSUE D

The Designation Order asks:

> How should Voluntary Employee Benefit Association trusts or other funding mechanisms for these expenses be treated:[21]

The questions in the Designation Order regarding the effect, if any, that funding vehicles and funding decisions should have on the amount of the exogenous amount raise various dilemmas. The Commission has previously concluded that carriers that chose to fund accrual accounting for OPEBs would be no more right or wrong than carriers that chose to await the final adoption of SFAS-106 accounting by the FASB and the Commission.[22] Thus, it would be unlawful for the Commission to use funding decisions made in the past to deny exogenous cost treatment for a historical period when the Commission's rules and orders had no such requirement. Moreover, no carrier can change the funding decisions that it previously made. Funding levels made in 1993, 1994 or the first half of 1995 cannot be altered in response to new rules established in this proceeding. New rules written as a result of this proceeding must be applied prospectively.

The decisions of whether or not to fund and then how much to fund are cash management decisions that the Commission has historically acknowledged are the responsibility of company management to administer. For the most part, the Commission has explicitly refused to make SFAS-106 rate recovery decisions based

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[21] Designation Order at para. 21.

[22] See Section II, supra.

on a company's cash management strategies by: (1) adopting SFAS-106 accounting without any modifications regarding funding; (2) allowing carriers under rate of return regulation to include SFAS-106 amounts in their cost of service regardless of whether they fund; and (3) acknowledging that funding amounts made by carriers now subject to price cap regulation while they were under rate of return regulation were no more right or wrong as inclusions in cost of service than were pay-as-you-go amounts.

Issues related to funding were also discussed on pages 13 through 14 of SWBT's 1992 Direct Case, pages 11 through 14 of SWBT's Rebuttal in the 1992 Direct Case proceeding, and pages 19 through 21 of SWBT's 1993 Direct Case.[23]

A. Issue D Item 1

If Implemented Before Price Caps

In accordance with the Commission's Rules that were in effect prior to price caps, prefunding of expected postretirement benefits should be allowed as a valid cost of service.

To the extent that these funding levels resulted in OPEB expenses above pay-as-you-go costs that were reflected in the initial price cap rates, they should be deducted from SFAS-106 costs to arrive at the incremental amount for exogenous treatment. To the extent that these funding levels were not included in the cost of service calculation under ROR regulation or were disallowed

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[23] SWBT's 1993 Direct Case filed in CC Docket No. 93-193 filed on July 27, 1993. (1993 Direct Case).